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VIRGINIA BUSINESS REPORT

Eleven issues of the Report are published annually, with no December issue. Therefore, we take this opportunity to wish all of our readers a Happy New Year.

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 327 **November, 1987**

Business in Virginia October, 1987 Data

Building permits in Virginia urban areas soared in October, up 24.1 percent compared to the same month last year. More planned construction is welcome news. We do not interpret this surge, however, as indicating a reversal of the downward trend in building permits has occurred. For the year to date, the dollar value of permits still is down 10.8 percent from the same period last year. Both national and state economic conditions point to declines into 1988.

New car registrations continued to fall in October, by a more modest 12.4 percent than last month's 24.2 percent dive. Here, too, the declines are not over. At least in December, registrations will be well below last year's levels, and further decreases are likely in 1988.

Our sample of retail stores experienced flat sales in October, down 0.2 percent from last October. Not a good sign, but in itself not a clear sign of a general consumer cutback in Virginia.

The lagged September results for general retail sales showed an amazing 20.5 percent gain compared to September 1987, with all of the urban areas experiencing double-digit growth. As we commented last month, a major reason for the large increase was the full week delay of Labor Day this year, adding tourist as well as resident back-to-school spending to the month's sales. On the other hand, payroll job growth in September continued on its recent course of deceleration with a 2.5 percent gain, the fifth consecutive month of growth rates under 3 percent.

In general, the most recent monthly data contained several surprises, offering little aid in finalizing our forecasts for 1988. RLP

The National Economic Outlook

The October 19 stock market crash was a shock that caused governments, businesses, and households to pause and reconsider their outlook and plans for the future. Economists have been busy ever since, evaluating the probable repercussions, reviewing and remolding their forecasts.

The emerging consensus among forecasters is the nation's real output growth will be lower in 1988 than expected before the crash. The November 10 issue of *Blue Chip Economic Indicators* gives the early November predictions of 49 forecasters. The November average of their real Gross National Product (GNP) forecasts for 1988 was 1.9 percent, down 0.9 percentage points from their October average of 2.8 percent, with 44 of the 49 prognosticators having lowered their forecasts. The consensus also shows, however, that most of them have concluded the dampening effects will be rather small, not sufficient to produce a recession in 1988. The verdict so far seems to be that the economy walked away from the crash somewhat dazed with visible but not life-threatening injuries. The economic expansion, now 60 months old and the longest U. S. peacetime expansion on record, appears to be sufficiently healthy to run for

Chart I

Nine Selected Business & Economic Indicators Percentage Change

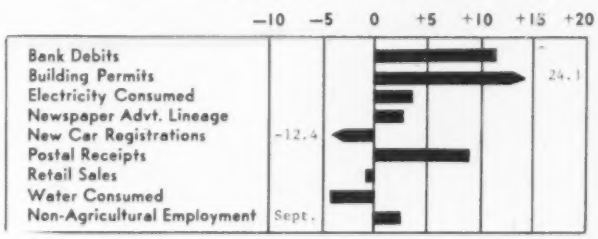
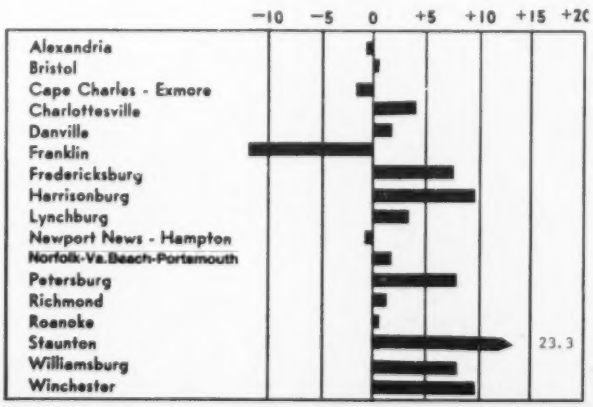


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I October 1987

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES†	POSTAL RECEIPTS
The State		329.6	168.5	137.4	108.9	146.7	139.1	95.8	175.8	401.2
Alexandria	154.6	30.0	206.4	148.6	N.A.	121.0	185.0	103.9	174.5	N.A.
Bristol	146.2	N.A.	107.7	92.2	N.A.	61.0	115.0	130.5	133.7	350.0
Cape Charles - Exmore	87.5	N.A.	536.5	127.8	N.A.	91.0	N.A.	N.A.	111.0	195.2
Charlottesville	195.3	108.4 ♦	152.0	129.0	N.A.	112.2	107.0	134.2	261.9	294.5
Danville	124.4	N.A.	144.8	116.4	N.A.	82.2	98.8	88.2	N.A.	236.2
Franklin	150.7	N.A.	133.9	113.7	145.2	78.7	N.A.	86.4	142.8	355.3
Fredericksburg	287.3	215.7	124.2	N.A.	199.5	186.1	N.A.	84.1	99.8	1241.7
Harrisonburg	185.1	265.9	444.1	N.A.	163.0	95.2	N.A.	157.1	187.1	319.3
Lynchburg	258.7	254.5	93.4	116.5	N.A.	81.4	99.3	123.4	173.2	1129.5
Newport News - Hampton	137.4	N.A.	208.5	118.3	101.6]	89.9	139.5]	115.3	178.1	N.A.
Norfolk - Portsmouth	190.1	503.9	200.3	150.5		109.3		90.3	263.4	N.A.
Petersburg	145.1	186.8	126.7	N.A.	35.3	82.8	128.6]	119.9	181.7	248.7
Richmond	162.3	354.2	321.8	153.5	135.2	112.1		110.9	150.6	335.0
Roanoke	151.9	341.4	82.6	102.4	184.1	75.2	124.3	100.6	139.6	361.8
Staunton	145.1	106.6	555.0	N.A.	89.5	80.9	N.A.	N.A.	150.1	242.0
Williamsburg	170.5	N.A.	312.6	174.4	N.A.	157.6	N.A.	105.4	136.4	346.7
Winchester	172.3	430.0	328.8	131.2	247.9	137.9	N.A.	N.A.	N.A.	N.A.

TABLE II October 1987

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	Sept. NON AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	Sept. RETAIL SALES ‡
The State	-	11.1	24.1	3.6	2.9	-12.4	2.5	-6.1	-0.2	20.5
Alexandria	-0.3	23.2	48.6	3.9	N.A.	-16.4	3.7	-5.9	-3.2	22.1
Bristol	0.3	N.A.	95.7	21.1	N.A.	-16.8	5.4	14.0	-10.8	11.1
Cape Charles - Exmore	-1.2	N.A.	324.9	6.8	N.A.	-13.2	N.A.	-35.2	4.6	19.1
Charlottesville	4.2	0.5	-1.6	0.3	N.A.	-20.5	-1.4	-2.6	7.9	36.4
Danville	1.7	N.A.	56.4	-6.1	N.A.	-3.7	0.8	-2.1	N.A.	17.5
Franklin	-11.8	N.A.	181.6	-0.1	10.7	-56.8	N.A.	-15.5	-16.2	16.3
Fredericksburg	7.7	22.8	-74.4	N.A.	13.5	5.2	N.A.	6.9	4.4	15.0
Harrisonburg	9.8	-30.3	-52.3	N.A.	15.0	-1.1	N.A.	11.6	5.4	27.2
Lynchburg	3.2	-25.5	-70.6	2.8	N.A.	-4.9	1.8	-0.7	-2.1	32.6
Newport News - Hampton	-0.4	N.A.	-4.4	-0.6	5.8]	-11.2	2.7]	-16.4	-0.1	16.4
Norfolk - Va. Beach - Portsmouth	1.6	8.5	24.2	4.8		-9.9		0.7	-2.1	16.3
Petersburg	7.9	-34.1	-37.5	N.A.	-0.4	7.2	2.8]	24.9	2.1	22.6
Richmond	1.2	20.6	48.9	3.8	11.2	-10.0		-4.6	-3.7	18.5
Roanoke	0.8	-10.4	101.3	0.8	0.4	-24.0	3.5	-2.2	2.6	21.3
Staunton	23.3	5.8	305.1	N.A.	-1.4	3.1	N.A.	N.A.	35.8	30.6
Williamsburg	7.8	N.A.	558.0	8.1	N.A.	13.4	N.A.	-19.5	9.1	25.3
Winchester	9.1	4.7	49.4	-2.7	4.5	-4.9	N.A.	N.A.	N.A.	39.6

TABLE III

Percent Change January - October from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	Jan.-Sept. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	Jan.-Sept. RETAIL SALES ‡
The State		12.5	-10.8	7.7	2.6	-10.0	3.2	-0.1	3.0	8.9
Alexandria	1.4	40.7	58.0	11.6	N.A.	-9.5	4.2	1.4	0.6	1.7
Bristol	-1.5	N.A.	16.8	2.1	N.A.	-18.9	4.1	9.8	-6.8	11.0
Cape Charles - Exmore	0.4	N.A.	1.0	3.9	N.A.	-22.0	N.A.	-3.0	4.4	10.7
Charlottesville	0.5	-3.8	38.4	8.8	N.A.	-16.4	1.6	0.7	2.5	1.9
Danville	6.0	N.A.	6.3	5.5	N.A.	-16.2	1.2	5.4	N.A.	34.0
Franklin	-3.2	N.A.	-28.7	7.4	5.0	-38.5	N.A.	-0.1	-3.0	9.8
Fredericksburg	8.0	37.3	100.3	N.A.	12.9	-5.3	N.A.	11.8	6.4	17.1
Harrisonburg	3.3	-10.1	9.4	N.A.	7.1	-14.1	N.A.	7.6	4.8	8.6
Lynchburg	0.0	0.4	0.4	5.6	N.A.	-11.9	1.7	-5.6	1.2	6.9
Newport News - Hampton	0.9	N.A.	-34.5	5.0	4.0]	-9.1	2.4]	-5.7	2.6	4.6
Norfolk - Va. Beach - Portsmouth	3.0	19.3	-22.0	6.6		-5.4		2.0	3.7	6.4
Petersburg	4.6	3.7	-22.4	N.A.	N.A.	-6.7	3.5]	7.8	5.6	10.7
Richmond	1.4	15.8	56.9	7.4	5.8	-6.7		-1.0	0.6	1.9
Roanoke	1.4	-16.3	12.8	2.5	-0.8	-20.1	3.2	0.2	5.0	12.6
Staunton	14.9	12.6	55.0	N.A.	N.A.	-15.3	N.A.	N.A.	25.2	14.4
Williamsburg	3.7	N.A.	-44.2	7.9	N.A.	-11.9	N.A.	-7.2	7.6	14.4
Winchester	0.0	-22.9	295.1	4.8	-0.9	-12.8	N.A.	-0.1	N.A.	8.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

#Virginia Employment Commission data which lags behind current reports.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

⊐ Only total MSA data are available for these areas

N.A. — Not Available

O.O. — No Change

at least 12 more months. That outlook is not strengthened by the recent Federal deficit reduction package agreed to by the President and Congress, but neither is it dampened by it. The agreement is a positive signal, but a weak one that is merely a holding action until after the 1988 elections.

Our current national forecasts for 1987 and 1988 are shown in Table IV. We expect the nation's real GNP to rise by 2.2 percent in 1988, led by a dramatic improvement in the net export deficit (measured in real terms). The 1987 net export deficit, in 1982 dollars, is predicted to be $131 billion. With high real growth in exports in 1988 in response to the decline in the dollar since early 1985, we look for the real net export deficit to decline to $90 billion, a 31.3 percent improvement over 1987. That alone is equal to over a one percent increase in real GNP.

We also forecast a 2.0 percent real (inflation-adjusted) rise in personal consumption in 1988, in line with a 2.1 percent gain in real disposable income. That will be about one percentage point less real consumption growth than might have occurred without the stock market crash. Furthermore, real demand for some types of consumer goods, such as automobiles, furniture and major appliances, is expected to be lower in 1988 than in 1987. On balance, however, we are fairly confident in our forecast that real consumer spending will grow in 1988 at about the same rate as in 1987.

Private fixed investment also requires comment. The modest 0.9 percent real growth predicted for this category in 1988 is based on strong growth in business equipment purchases more than offsetting a flat to lower level of real nonresidential construction and a decline in residential construction.

The inflation accompanying that real growth will be slightly higher than in 1987. Overall inflation, as measured by the GNP Implicit Price Deflator, is predicted to be 3.8 percent in 1988, up from 3.0 percent in 1987. For consumers, we expect the 1988 increase in the Consumer Price Index to be 4.6 percent, up from 3.8 percent this year.

In sum, we forecast that the nation's real growth in 1988 will be slightly lower than in 1987, 2.2 percent versus 2.6 percent, with somewhat higher overall inflation, 3.8 versus 3.0 percent. If that is in fact what happens in the coming year, all of us should be thankful for having done that well. RLP

The Virginia Economic Outlook

Virginia's 1987 growth in real income and jobs clearly will be lower than the 1986 growth rates. We predict that deceleration will continue in 1988. No recession is likely in the Commonwealth next year, but the state will experience slower real growth than in 1987.

Our numerical predictions for Virginia income and jobs in 1987 and 1988 are reported in Table V, along with the 1986 numbers for comparison. The year 1986 was a boom one for the Commonwealth. High personal income growth in current dollars, coupled with an exceptionally low inflation rate, yielded a real (inflation-adjusted) resident personal income gain of 5.7 percent. Along with the superior real income growth we experienced accelerating real activity in manufacturing, construction and retail trade. The rapidly rising demand insured high job growth. Nonagricultural payroll employment rose 4.2 percent in 1986, twice the nation's rise of 2.1 percent.

Last November we predicted the cyclical forces behind Virginia's booming growth would begin to slow down in 1987. That in fact has been occurring. Our current estimate is Virginia's real personal income will rise by only 2.9 percent for 1987, about one-half of the real growth rate in 1986. Payroll job growth also has slowed, to an expected 3.0 percent for the year, down 1.2 percentage points from last year's rate.

The 1987 deceleration primarily reflects a leveling off in construction and slower real growth in retail trade and private services. Construction in the pipeline remains high, and construction employment still exceeds last year's levels. However, the booming growth in construction has ended in 1987, removing one strong source of demand and job growth that has benefitted the state since 1982.

Another perennial source of strength has been the phenomenal growth in trade and service jobs since 1982. Fueled by booming demand, trade and private service jobs rose by 6.0 percent in 1986. Lower real income growth this year, accompanied by lower job and population growth, has reduced the real demand growth of both retail trade and services in Virginia. The supply response has been lower job growth in these sectors in 1987, falling to 4.7 percent.

The cyclical forces behind the 1987 deceleration in Virginia's growth will be operating at least as strongly in 1988, further dampening the state's real growth. Here as nationally, we predict that construction, especially residential construction, will decline in 1988. That will mean lower construction employment and income. It also will dampen the demand for construction-related goods and services, ranging from building supplies, furniture, and major appliances to real estate services

Virginia's retail sales subject to the general sales tax, which includes most retail goods except automobiles, gasoline and drugs, will rise by almost 8 percent in 1987. After adjusting for inflation, the real increase is about 3.9 percent. That is higher than the real income growth in the state, and a pace we do not believe can continue in 1988. For next year, we project about a 6.5 percent increase in taxable retail sales. With price increases of about 4 percent for those types of goods, the forecasted real growth in taxable retail sales is only about 2.5 percent, a significant deceleration from the 1987 gain. Important, too, are the supply-side relationships. Retail trade jobs appear to be growing at a higher rate than the real volume of goods sold. We expect hiring in the trade sector in 1988 will be more in line with real growth. Therefore trade job growth will be slowed by both lower real demand growth and more conservative hiring practices by retail businesses. That expectation is a major factor behind our forecast that trade and private service jobs will grow by only 3.3 percent in 1988.

Our overall Virginia forecast for 1988 is real (inflated adjusted) resident income growth of 2.3 percent, accompanied by nonagricultural employment growth of 2.0 percent. Still respectable growth, but again a deceleration from the current pace. However, this path will allow the state's economy to achieve better balance by the end of 1988, creating the likelihood of steady or mildly accelerating growth in 1989. RLP

TABLE IV

THE U.S. ECONOMY
FORECASTS FOR YEARS 1987 and 1988
IN 1982 DOLLARS

	1987 (Bill.1982$)	% Change 1986-1987	1988 (Bill.1982$)	% Change 1987-1988
Domestic Final Demand				
Personal Consumption	$2,500	2.0%	$2,550	2.0%
Private Fixed Investment	644	0.6	650	0.9
Government Purchases	770	2.0	775	0.6
Total Domestic Final Demand	$3,914	1.8%	$3,975	1.6%
Plus: Net Exports	-131	-10.2	-90	-31.3
Equals: Final Sales	$3,783	2.3%	$3,885	2.7%
Plus: Change in Inventories	27	N.A.	10	N.A.
Equals: Gross National Product	$3,810	2.6%	$3,895	2.2%
Disposable Personal Income	$2,670	0.9%	$2,725	2.1%
Saving Rate	3.5%	N.A.	4.1%	N.A.
Nonagricultural Payroll Employment (Millions of jobs)	102.0	2.4%	103.6	1.6%

N.A.: Not Applicable

Source: Bureau of Business Research, College of William and Mary, November 23, 1987

TABLE V

THE VIRGINIA ECONOMY
ACTUAL VALUES FOR 1986 AND FORECASTED VALUES
FOR 1987 AND 1988

	1986		1987		1988	
	Level	Percent Change	Level	Percent Change	Level	Percent Change
Resident Personal Income (mill.$)	$89,169	8.0%	$95,200	6.8%	$101,900	7.0%
Real Personal Income (mill. 1982$)	$78,013	5.7	$80,275	2.9	$82,125	2.3
Nonagricultural Employment (thous.)	2,557	4.2	2,634	3.0	2,687	2.0
Manufacturing	424	1.9	425	0.2	430	1.2
Mining	16	-5.2	16	-2.5	15	-2.0
Construction	169	10.6	168	0.0	157	-6.5
Trade, Services, Transportation and Public Utilities and FIRE	1,427	6.0	1,495	4.7	1,545	3.3
Government	521	1.0	530	1.7	540	1.9

Source: Bureau of Business Research, College of William and Mary, November 23, 1987.

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